

**DRAFT**

**CA-6**

**6/6/02**

**AGENDA ID #509**

**WATER/ABJ/PTL/RKN:JLJ**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION  
WATER BRANCH**

**RESOLUTION NO. W- 4333  
JUNE 6, 2002**

**RESOLUTION**

**(RES. W-4333), DEL ORO WATER COMPANY, INC., PARADISE PINES DISTRICT (PPD). ORDER AUTHORIZING A GENERAL INCREASE IN RATES PRODUCING \$121,745 OR 10.51% ADDITIONAL ANNUAL REVENUE.**

**SUMMARY**

By Draft Advice Letter, accepted on November 5, 2001, PPD seeks to increase revenues by \$121,745 or 10.51% to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2002, this resolution grants an increase in gross annual revenues of \$121,745 or 10.51%, which is estimated to provide a rate of return on rate base of 6.65%.

**BACKGROUND**

PPD requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$121,745 per year or 10.51% in 2002. PPD's request shows that its gross revenue of \$1,158,670 at present rates would increase to \$1,280,415 at proposed rates.

PPD's last general rate increase became effective on July 1, 1997, pursuant to Commission Res. No. W-4049, which authorized a rate increase of \$74,283 or 7.18% with a rate of return of 10.90%. PPD's current rates became effective on September 25, 2001, pursuant to Res. W-4300, which authorized a rate base offset increase of \$109,909 or 11.11%. PPD presently serves 4,483 metered customers in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately six miles north of Paradise, Butte County.

**DISCUSSION**

The Water Division (Division) made an independent analysis of PPD's summary of earnings. Appendix A shows PPD's and the Division's estimates of the summaries of earnings at present, requested, and adopted rates for test year 2002. Appendix A also shows differences between PPD's and the Division's estimates of operating expenses and rate base. After reviewing and discussing the differences with the

Division, PPD accepted the Division's estimates. In accepting the Division's numbers, however, the utility requested authority to establish a full-cost purchased power balancing account. A full-cost balancing account in this instance is not warranted. It would remove any incentive for PPD to operate more efficiently and conserve energy. As will be discussed later in this resolution, the Division believes that there are opportunities for PPD to reduce power costs by making certain adjustments to its operation. A full-cost balancing account, which requires refunding of any savings in power costs to customers, would certainly remove any motivation for the utility to make any changes in its operation to improve efficiency.

PPD's draft advice letter requested rates that it estimated would produce a rate of return on rate base of 9.97%. The Division's Audit and Compliance Branch (ACB) has determined that a 9.97% rate of return for PPD is reasonable. The summary of earnings in Appendix A shows a rate of return of 6.65 % at the Division's recommended rates. Although this rate of return is less than the rate of return recommended by ACB, it will result in the utility receiving the entire increase it requested. The main reason for PPD not being able to earn the recommended rate of return without exceeding the increase amount requested is because it significantly underestimated its projection of power cost in the test year. The Division based its estimate on projected power consumption in the test year using current Pacific Gas and Electric Company's rates. The Division also assumed that pumping operations would remain the same in the test year. Although its estimate exceeds PPD's by approximately \$140,000, the Division believes that PPD can significantly reduce its power expense by making certain efficiency improvement adjustments in its operation. Such improvements or adjustments include installing a single primary meter for Well # 6 and the booster pump, installing variable frequency drives for its pump motors and installing a self generation system. These improvements should reduce power costs enough to where PPD should be able to earn the rate of return recommended by ACB without any further increase in rates. PPD has indicated that it will work with the Division to make the adjustments. For future means tests (for offsets) and other purposes, a 9.97% rate of return should be used.

Under guidelines established by Commission Decision No. (D.) 92-03-093, the Commission staff must calculate net revenues by both the return on rate base and the operating ratio methods that determine revenue and select the method that produces the most revenue. Division evaluated the net revenue using both methods and determined that the return on rate base method provides the most revenue.

PPD's filed tariffs currently contain one rate schedule, Schedule No. PP-1A – Annual General Metered Service. PPD proposes to increase rates uniformly, increasing both the service charge rates and the commodity rate by the system average increase of 10.51%. Current rate design policy allows Class B water utilities to recover up to 50% of its fixed costs in the service charge component of a metered rate schedule. Compliance with this policy was inadvertently overlooked when rates were set in PPD's last general rate case, therefore, a uniform increase in service charge and commodity rates proposed by PPD will only perpetuate non-compliance with service charge revenue recovering approximately 68% of fixed costs. Although the Division recommended rates, shown in Appendix B, allow 62% recovery of fixed costs in the service charge, it is a reduction from 68%. Division recommends that further reduction be made in subsequent general rate increases until 50% is achieved. The rate design recommended by Division also makes adjustments to the service charges for meters greater than 1-inch in order to more closely conform to the rate design policy for service charge allocation by meter size established in Commission D.85-06-064.

At the Division's recommended rates shown in Appendix B, the monthly bill for a 5/8 X 3/4 metered customer using 1,000 cubic feet of water will increase by \$2.22 from \$21.30 to \$23.52 or 10.42%. A comparison of customer bills at present and recommended rates is shown in Appendix C.

The adopted quantities and tax calculations are shown in Appendix D.

### **NOTICE AND PROTESTS**

A notice of the proposed increase in rates and notice of a public meeting were mailed to each customer on November 15, 2001. The Division received six letters responding to the notice. The responses complained of the magnitude of the requested increase. The Commission's Consumer Affairs Branch (CAB) reports that it has received two complaints on PPD and they were both related to billing.

CAB informed the Division that PPD promptly responds and resolves complaints.

On December 12, 2001, the Division held a public meeting in PPD's service area. The Division's representative explained the Commission's rate-setting procedure and the utility's representative explained the need for the increase. There were three individuals present at the meeting. The comments and questions raised by the persons attending the meeting dealt mainly with the need and magnitude of the increase.

### **FINDINGS AND CONCLUSIONS**

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.
5. Power costs can be significantly reduced by making certain adjustments to utility operation such that the rate of return recommended by ACB can eventually be achieved without any additional increase in rates.

### **IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for the Del Oro Water Company, Inc., Paradise Pines District, to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. PP-1A – Annual General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.

2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the adopted by the Public Utilities Commission held on June 6, 2002; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director

**APPENDIX A**  
**Summary of Earnings**

**Del Oro Water Company, Paradise Pines District**  
**Test Year 2002**

Item	PPD Estimated		Branch Estimated		<b>Recommended</b>
	Present Rates	Requested Rates	Present Rates	Requested Rates	<u>Rates</u>
<b>Operating Revenues</b>					
Metered	1,158,670	1,280,415	1,158,670	1,350,329	1,280,415
Other					
<b>Total Revenues</b>	<b>1,158,670</b>	<b>1,280,415</b>	<b>1,158,670</b>	<b>1,350,329</b>	<b>1,280,415</b>
<b>Operating Expenses</b>					
Purchased Water	16,215	16,215	0	0	0
Purchased Power	246,461	246,461	385,439	385,439	385,439
Employee Labor	147,581	147,581	132,959	132,959	132,959
Materials	16,899	16,899	16,753	16,753	16,753
Contract Work	20,636	20,636	20,517	20,517	20,517
Transportation	36,947	36,947	31,729	31,729	31,729
Other Plant Maint.	491	491	488	488	488
Office Salaries	126,072	126,072	125,555	125,555	125,555
Mgmt. Salaries	75,339	75,339	73,543	73,543	73,543
Empl. Pens. & Benefits	42,637	42,637	42,637	42,737	42,737
Uncollectibles	5,686	5,686	5,686	5,686	5,686
Office Svc. & Rentals	57,646	57,646	57,646	57,646	57,646
Office Supp. & Exps.	57,222	57,222	53,613	53,613	53,613
Professional Services	31,674	31,674	6,944	6,944	6,944
Insurance	20,731	20,731	14,182	14,182	14,182
Reg. Comm. Exp.	13,351	13,351	8,365	8,365	8,365
General Expense	4,797	4,797	4,769	4,769	4,769
Other Volume Related	990	998	990	990	990
<b>Subtotal</b>	<b>921,383</b>	<b>921,383</b>	<b>981,815</b>	<b>981,815</b>	<b>981,815</b>
Depreciation	111,634	111,634	123,554	123,554	123,554
Payroll taxes	19,740	19,740	19,741	19,741	19,741
Property taxes	28,068	28,068	28,068	28,068	28,068
Income Taxes	800	8,914	800	8,366	800
<b>Total Deductions</b>	<b>1,081,625</b>	<b>1,089,739</b>	<b>\$1,153,978</b>	<b>1,153,978</b>	<b>1,153,978</b>
Net Revenue	77,081	190,704	4,692	126,437	126,437
Rate Base					
Average Plant	5,636,507	5,636,507	5,636,507	5,636,507	5,636,507
Average Depr. Res.	-3,462,531	-3,462,531	-3,488,827	-3,488,827	-3,488,827
Net Plant	2,173,976	2,173,976	2,187,680	2,187,680	2,187,680
Less: Advances	-86,100	-86,100	-86,100	-86,100	-86,100
Contributions	-259,508	-259,508	-290,325	-290,325	-290,325
Deferred income taxes					
Plus: Working Cash	76,779	76,779	81,062	81,062	81,062
Mat'l & Suppl.	7,157	7,157	7,157	7,157	7,157
Rate Base	1,912,304	1,912,307	1,899,463	1,899,463	1,899,463
<b>Rate of Return</b>	<b>4.03%</b>	<b>9.97%</b>	<b>0.25%</b>	<b>9.97%</b>	<b>6.65%</b>

(END OF APPENDIX A)

**DRAFT**

**Resolution No. W-4333  
DOWCPP/DR AL/ABJ/PTL/RKN:jlj**

**May 16, 2002**

**Appendix B**  
Rates

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**Del Oro Water Company, Paradise Pines District  
Test Year 2002**

**Schedule No. PP-1A**

**ANNUAL GENERAL METERED SERVICE  
PARADISE PINES DISTRICT**

**APPLICABILITY**

Applicable to all metered water service furnished on an annual basis to the Paradise Pines District service area.

**TERRITORY**

All territory served by Del Oro Water Company, Inc. In the area known as Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County.

**RATES**

**Quantity Charge:**

All Water, per 100 cu.ft.....\$1.3420

**Service Charge:**

Per Meter  
Per Year

For 5/8 x 3/4-inch meter .....	\$121.20
For 3/4-inch meter .....	\$182.40
For 1-inch meter .....	\$306.00
For 1.5-inch meter .....	\$516.96
For 2-inch meter .....	\$709.92
For 3-inch meter .....	\$1,223.04
For 4-inch meter .....	\$1,617.96

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

(END OF APPENDIX B)

## Appendix C

### Comparison of Rates

#### Del Oro Water Company, Paradise Pines District Test Year 2002

		Per Service Connection Per Year		
		Present Rates	Recommended Rates	% Increase
Metered Rate Service				
Service Charge:				
5/8 x ¾-inch meter		121.20	121.20	0
¾ - inch		182.40	182.40	0
1-inch meter		306.00	306.00	0
1 ½ - inch		427.80	516.96	20.8415
2-inch meter		587.40	709.92	20.8580
3-inch meter		1,011.00	1,223.04	20.9733
4-inch meter		1,337.40	1,617.96	20.9780
Quantity Charge				
Total charge All water, per 100 cu.ft.		1.12	1.3420	19.82142
Quantity Charge structure:		Base Rate Total charge	1.3420 1.3420	
A monthly comparison bill for a customer with a 5/8 x ¾ -inch meter is shown below:				
Monthly Usage in 100 cu. ft.	Present Bills	Recommended Bills	Amount Increase	% Increase
	\$	\$	\$	%
0	10.10	10.10	0	0.0%
(Average) 10	21.30	23.52	2.22	10.423%
20	32.50	36.94	4.44	13.662%
40	54.90	63.78	8.88	16.175%
60	77.30	90.62	13.32	17.232%
80	99.70	117.46	17.76	17.813%
100	122.10	144.30	22.20	18.182%

(END OF APPENDIX C)

**APPENDIX D**  
**PAGE 1**  
**DEL ORO WATER COMPANY**  
**PARADISE PINES DISTRICT**  
**ADOPTED QUANTITIES**  
**Test Year 2002**

1. Purchased Power

Pacific Gas and Electric Company  
Effective Date January 1, 2002  
Schedule A-1 Medium General Demand Metered Service

**ENERGY CHARGE**  
(per kWh per month)

Summer	\$0.1487
Winter	\$0.10193

**ENERGY PROCUREMENT SURCHARGE**  
(per kWh per month)

Summer	\$0.0714
Winter	\$0.03838

Total Cost	\$385,439
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Total kWh	1,971,447
Average Unit Cost \$/kWh	\$0.19551

2. Payroll

Employee Labor	\$132,959
Office Salaries	\$125,555
Management Salaries	\$ 73,543

3. Payroll Taxes	\$19,741
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4. Property taxes	\$28,068
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## APPENDIX D

PAGE 2

### DEL ORO WATER COMPANY PARADISE PINES DISTRICT

#### ADOPTED QUANTITIES

Test Year 2002

#### SERVICE CONNECTIONS

Meter Size	
5/8 x 3/4 " .....	4445
3/4 " .....	0
1" .....	21
1-1/2 " .....	9
2" .....	2
3" .....	3
4" .....	3
	<u>4483</u>

Metered Water Sales Used to Design Rates

	<u>Usage – Ccf/Year</u>
General Metered	537,000
	=====

#### ADOPTED TAX CALCULATIONS

1. Operating Revenues	\$1,280,415
2. Expenses	\$981,815
3. Depreciation	\$123,554
4. Taxes Other Than Income	\$47,809
5. Interest Expense	\$160,000
6. Taxable Income for State Tax	(\$32,763)
7. State Tax	\$800
8. Taxable Income for FIT	(\$33,563)
9. Federal Tax	\$0

(END OF APPENDIX D)